

Message Text

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C O N F I D E N T I A L 3197

E.O. 11652: GDS

TAGS: EINV, JM

SUBJECT: REVERE SHUTDOWN

REF: STATE 194086

1. SUMMARY: CHECKS WITH GOJ AND LOCAL REVERE SOURCES HAVE CONVINCED ME THAT REVERE SHUTDOWN IS INEVITABLE, GIVEN THE SEEMINGLY IRRECONCILABLE POSITIONS OF THE TWO PARTIES. THE ALLEGED LABOR PROBLEM APPEARS TO BE ONLY AN EXCUSE FOR SHUTTING DOWN THE PLANT. THE HEART OF THE MATTER IS NOT THE BUY-OUT PRICE OF THE PLANT, BUT RATHER THE GOJ'S REQUEST FOR AT LEAST THREE-YEAR GUARANTEE FROM REVERE TO PURCHASE THE PLANT'S 220,000-TON ANNUAL OUTPUT AT THE COST OF PRODUCTION.

2. I HAVE TALKED WITH LOCAL REVERE MANAGER WHO CONFIRMS THAT HE HAS BEEN INSTRUCTED TO BEGIN PLANT SHUTDOWN (NOTIFICATION TO WORKERS) ON MONDAY, AUGUST 18. HE CLAIMED GENERAL IGNORANCE OF THE VARIOUS TELEPHONE AND CABLE EXCHANGES BETWEEN REVERE AND THE GOJ AND INTIMATED TO ME THAT LACK OF AN AGREEMENT FREEZING WAGES UNTIL THE END OF THE YEAR HAD LITTLE TO DO WITH THE DECISION TO CLOSE.

3. MEYER MATALON, THE CHIEF GOVERNMENT NEGOTIATOR, HAS INFORMED ME THAT THE GOJ HAS RECEIVED A CABLE FROM REVERE PRESIDENT COLLINS EXPLAINING LABOR PROBLEM AND ANNOUNCING INTENTION TO SHUT DOWN. MATALON HAS REPLIED THAT REVERE'S DECISION TO CLOSE THE PLANT HAS NO RELATION TO REVERE'S
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RECENT COMMUNICATIONS WITH ACTING PRIME MINISTER COORE AND

THAT IT WAS UNREASONABLE TO EXPECT THAT THE GOJ WOULD ASSUME THE OPERATING LOSSES OF A PLANT BUILT BY REVERE. MATALON EXPLAINED THAT WITH THE CURRENT ALUMINA PRICE AT APPROXIMATELY \$130 A TON AND REVERE'S ACTUAL PRODUCTION COST RUNNING AT \$224 A TON, THE ANNUAL LOSS INCURRED WOULD AMOUNT TO OVER \$20 MILLION A YEAR (REVERE CLAIMS THE ANNUAL OPERATING LOSS IS CLOSER TO \$28.9 MILLION).

4. IN NEGOTIATIONS WITH REVERE, GOJ STIPULATED IT WOULD ONLY BUY PLANT IF GIVEN A GUARANTEE OF AT LEAST THREE YEARS DURATION THAT REVERE WOULD PURCHASE PLANT OUTPUT AT COST OF PRODUCTION. DURING PERIOD OF GUARANTEE, GOJ WOULD THEN EFFECT NEEDED PLANT EXPANSION TO RENDER ALUMINA OUTPUT COMPETITIVE (ESTIMATED 500,000 TON CAPACITY). REVERE COUNTERED THAT IT ONLY WILLING TO GIVE A PRODUCTION PURCHASE GUARANTEE BASED ON THE COMPETITIVE PRICE FOR ALUMINA. AT THIS POINT, THE BUYOUT NEGOTIATIONS CAME TO A DEADLOCK.

5. COMMENT: THE REASON FOR THE REVERE SHUTDOWN IS PURELY ECONOMIC. THE PLANT WAS ILL-CONCEIVED AND IS GROSSLY INEFFICIENT. THERE IS NO ADVANTAGE TO THE GOJ IN BUYING IT, IF IT HAS TO ABSORB A \$20 MILLION PLUS OPERATING LOSS. BY THE SAME TOKEN, THERE IS NO REASON FOR REVERE TO KEEP IT OPEN AND CONTINUE LOSING MONEY, IF THE POSSIBILITY OF A SALE TO GOVERNMENT HAS BEEN FORECLOSED. IN MY OPINION, THE WAGE FREEZE ISSUE IS A STRICTLY PERIPHERAL ONE, WHICH REVERE HAS SEIZED UPON TO HANG ITS SHUTDOWN ANNOUNCEMENT. FRANKLY, I SEE NO POSSIBLE ACTIONS THE USG COULD TAKE TO PREVENT A SHUTDOWN. IT IS DICTATED BY SIMPLE ARITHMETIC AND WILL TAKE PLACE BARRING AN UNCHARACTERISTIC BURST OF PHILANTHROPY BY EITHER PARTY AT THE LAST MOMENT. I HAVE OFFERED THE EMBASSY'S GOOD OFFICES TO BOTH SIDES AND RECEIVED A POLITE THANKS BUT NO THANKS, THE DIE IS CAST REPLY.

6. THERE ARE TWO IMMEDIATE CONSEQUENCES FOR REVERE, TRIGGERED BY ITS DECISION TO SHUT DOWN. IT WILL BECOME LIABLE FOR THE FULL AMOUNT OF BAUXITE LEVY RELIEF IT HAS RECEIVED TO DATE. AND TWO, UNDER THE MINING AMENDMENT

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(NO. 2) ACT, 1974, IT WILL LOSE IT MINING RIGHTS SIX MONTHS AFTER CLOSURE, AS THE RESULT OF ITS FAILURE TO FULFILL THE MINIMUM PRODUCTION LEVY.

7. I HAVE JUST TALKED AGAIN TO THE LOCAL REVERE MANAGER, AND HE HAS CONFIRMED TO ME THAT HE WILL BE INFORMING PLANT SUPERVISORS AND UNION LEADERS OF THE SHUTDOWN LATER THIS AFTERNOON. A PRESS ANNOUNCEMENT WILL BE MADE

AT 0930 AUGUST 19. THE 550-MAN LABOR FORCE WILL BE
REDUCED TO 100 OVER A FOUR-WEEK PERIOD, AND THE REMAINING
100 TO 50 IN THE FOLLOWING TWO WEEKS.
GERARD

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